# One city Many choices City of Surprise

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# 4.0 Facilities and Infrastructure

The Facilities and Infrastructure section of the Surprise General Plan 2030 provides an overview of the various public safety, administration, utilities, and infrastructure located within the Surprise planning area. It is crucial that the city of Surprise has the necessary public facilities and services to support new and existing growth and development as well as adequate policies in place to determine what role the public sector plays in financing public services and facilities.

Growth in the city of Surprise and the Phoenix metro area requires expansion of facilities and infrastructure to serve the needs of the public. The city of Surprise will use various funding mechanisms to help in the creation of new and expanded services as well as in maintenance of existing services. The cost of maintenance has always been the burden for the municipality; the cost of new services must have its "fair share" paid by for developers. To ensure city services are provided to all residents the city must define goals and policies that determine what services will be required, the cost of those services, and if they can be paid for without undo burden on the taxpayer.

State laws require municipalities to review and report on the coordinated program of public works for the ensuing fiscal year. For the city of Surprise, the review will be accomplished through an annual Capital Improvement Project (CIP) report to the City Council. This report will address ongoing public works and their compliance with the adopted Surprise General Plan 2030. The report is to include public real property acquisitions or dispositions, public construction, or vacation of public streets. Acquisitions or abandonment for street widening or alignment projects of a minor nature are excluded from such review. All CIP projects shall be in conformance with the Surprise General Plan 2030.

07/24/2008

# One city Many choices City of Surprise

# 4.1 Cost of Development Element

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# 4.1 Cost of Development Element

#### 4.1.1 Introduction

For the city of Surprise to be fiscally sustainable over time it will become necessary to review revenue and expenditures, maintenance and repair issues, and secondary costs to new development and redevelopment efforts. Fiscal responsibility will come with not only a balanced budget, but by using our revenue streams wisely and for the correct purposes. Surprise has experienced rapid growth over the past decade. In response to this, it will become necessary to begin budgeting more of the city's money for repair and redevelopment efforts of older neighborhoods and infrastructure. As new development comes into the city, decisions must be made to consider secondary costs in developing or redeveloping areas.

## 4.1.2 Discussion

#### A. Revenue

Revenue for the city of Surprise is not only in the form of city taxes, user fees, and grants. The city also receives funding from federal, state, and county agencies to perform necessary service additions and repairs. This money is typically earmarked for specific purposes such as streets, housing, or education. Listed below are typical budget categories, revenue sources that provide for these categories, and the method of use (Figure 4.1A). A breakdown of the current (2008) budget category percentages is provided below.

### Revenue by Source - All Funds FY2008 Budget

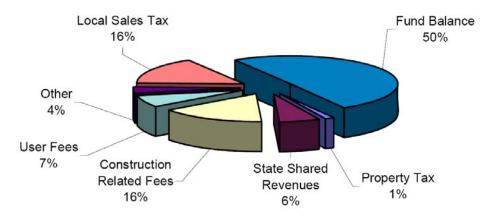


Figure 4.1A: Source: City of Surprise- FY2008 budget

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#### **Beginning Fund Balance**

These revenues are carried over from previous budgetary years. This can be a positive or negative balance applied to the next budget cycle. In cases where the balance is positive the city of Surprise will schedule the funds to be used for capital improvements or other one time expenditures.

#### **Construction Related**

Revenues that are collected or earned by the city are directly related to the level of construction activity. These revenues will continue as long as the city continues to grow. It must be understood that these revenues are not a steady income stream and should not be used for regular service and maintenance costs to the city. These funds should be directed to capital improvements, redevelopment, or other one time expenditures. Revenue sources that fall under this category are:

<u>Pay-as-you-go</u>: Revenues generated by city taxes (sales, property, and construction), as well as state and federal shared taxes (state fuel and lottery taxes). Pay-as-you-go funding sources are typically used for daily services and maintenance costs to the city.

<u>Development Impact Fees</u>: Fees that are established by the city based on the cost of expanding services to accommodate new development. These fees are then passed on to the project developer as part of the cost of the development. Development impact fees are currently in use. Impact fees are narrow in scope (i.e. utilities, police, library, roads, etc.). The impact fee should be attached to a capital improvement project that is directly related to the development being built. These are one-time fees and should not be used to fund regular service and maintenance.

#### **Local Taxes**

Local taxes are the largest source of general fund revenue. These revenues are generally re-occurring with little or no external restriction on their use. Examples of local taxes are sales, property, and franchise fees. As a relatively steady source of income local taxes should be directed to provide for regular services and maintenance throughout the city, as well as assisting—but not relied upon—to pay for other budgetary needs such as capital improvement projects. Revenue sources for this category include:

Pay-as-you-go: (described under Construction Related)

#### Other Revenues

This category includes grants, audits, building rents, program fees, and other miscellaneous revenues. Typically revenues falling under this category will be designated

for specific uses. In most cases this revenue category is not a stable income stream and should not be used for regular maintenance and services. Revenue sources for this category may include:

Revenue Bonds: Revenue bonds are a method of borrowing to finance service expansions. Bonding must be approved by a public vote. Bonds are typically used for capital improvements in the form of unexpected utility or roadway repairs, or intentional expansion to spur development in select locations. By building the infrastructure the ideal case will generate an increase in sales and property taxes, which will pay back the bonds and create more revenue for the city. The bonds are paid back through future revenues that are legally pledged to the issuer. Revenues generally utilized for debt service are privilege taxes (sales tax), Highway User Revenues Funds (HURF) (i.e., payments made to municipalities from state fuel taxes), and user fees.

General Obligation Bonds: General Obligation (G.O.) Bonds are similar to revenue bonds but are based on the full taxing authority of the municipality. The city of Surprise may bond up to twenty per cent (20%) of its secondary assessed valuation with an additional six percent (6%) available for special projects. Like revenue bonds, G.O. bonds must be approved by public vote. Use of G.O. bonds is similar to revenue bonds in that they should be used for capital improvements. They differ in payment arrangements. G.O. bonds are typically paid back through property taxes with little or no sales taxes used. Like revenue bonds these can be used for immediate finance needs as well as spurring development in select locations.

<u>Certificate of Participation/Municipal Property Corporations</u>: These are methods of borrowing that are paid back by municipal revenues. No public vote is required to use these revenue sources; they are enacted through a council vote. These methods are usually not legally tied to a specific revenue stream in the way bonds are. With enactment through a council vote, these sources should be used for smaller capital improvement projects that require immediate attention from the city in the form of infrastructure repair and emergency equipment.

<u>User Fees</u>: User fees are fees charged for services such as water, sewer, trash collection, and recreation facilities. User fees are a direct method of subsidizing or fully paying for the specific use charging the fee. User fees may also be utilized to charge for advertising on public property such as ad copy at recreational venues and development and business directories in public rights-of-way.

<u>Grants</u>: Grants are revenues given to the city for specific projects. These revenues typically come from federal, state, and county agencies but may also come from private parties. Often grants require an "in kind" payment where the city matches the grant

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with a stated percentage of city revenue. The "in kind" funds can be attained from any of the above funding sources. The city is currently aggressive in attempting to obtain grants for all purposes. Most often these grants aid in emergency services, and housing programs. Grants that are achieved by the city must be used for the specific project applied for.

#### Borrowing

As the category states, these revenues come from institutions that lend money to be repaid by the city. These funds are typically used for unforeseen expenses and capital improvement projects. Borrowed funds should never be used to fund regular services or maintenance except in situations of extreme repair needs. Common items the city will borrow for are water, sewer, and fire infrastructure, land acquisition, and community recreation projects. Common revenue sources for borrowing are:

Revenue Bonds: (described under Other Revenues).

<u>General Obligation Bonds</u>: (described under Other Revenues).

<u>Certificate of Participation/Municipal Property Corporations</u>: (described under Other Revenues).

<u>Special Financing Districts</u>: This revenue source establishes specialized districts to increase city revenues for a specific project. Finance districts are typically used for redevelopment purposes where the project can be paid for over time. Examples of projects are: sewer, water, streets, streetlights, and community centers.

<u>Lease-Purchase Agreements</u>: Lease-purchase agreements require the city to make an arrangement with a private or public entity to purchase an item or building. While interest is paid, the payoff period is typically for a shorter period than bonds and the municipality will own the project at the termination of the agreement. Various agreements can be made on the terms of the lease or purchase. This revenue source is most often used to provide for immediate items with a relatively low cost compared with bond purchase items. This may also be used for lease or purchase agreements for new facilities or services. Lease-purchase agreements are a method of financing capital projects that lessens the up-front costs to the municipality.

#### **User Fees**

User fees are revenues associated with the provision of utility or public services by the city. Examples Include sewer, trash collection, and parks and recreation fees. User fees are typically directed for regular city maintenance and services, and directed to the service they are derived from. In some cases user fees may assist in the development of capital improvement projects. The revenue stream associated with this category is:

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User Fees: (described under Other Revenues).

#### State Shared Revenue

State shared revenues are distributed to cities and towns based generally on the population at the last census or special census. Included in this category are state sales tax, state income tax, highway user revenue, local transportation assistance fund, and vehicle license tax. These revenues are typically earmarked for specific city expenditures such as street maintenance, transit, and education. State shared revenues can be considered relatively stable and should increase with the growing population of the city. These revenues should be used for both regular service and maintenance as well as capital improvement projects. Funding sources related to this category are:

<u>Pay-as-you-go</u>: (described under Construction Related).

## **B.** Expenditures

To ensure Surprise maintains a sustainable budget it is necessary to review what the city funds, as well as analyze the desired amount to be spent on services and maintenance. Currently Surprise offers expected services such as trash, police, fire, and limited service on amenities such as recycling and recreation. To become a truly full service city, Surprise must begin to research expenses for expanded recreation opportunities and services, as well as analyzing timing on these expenditures.

As new and expanded services are desired by residents, the city must review the total costs and determine future budgetary needs related to the services before implementing them. In determining associated costs the city must look at location, construction costs, timing, phasing, and Inflation. Locations for new services should be decided through desired level of services, under-served communities, and the amount of use the service will garner in the location. Once all issues of cost, location, and unforeseen hurdles have been determined as best possible, only then should the new or expanded service be brought forward to a Capital Improvement Project (CIP) budget. The project must then be looked at to determine its level of importance compared with other projects on the list. Factors in determining a level of importance should be: length of time it has been on the CIP budget, time to completion, cost of completion, safety, and importance to residents.

It is also important to keep in mind that not all new or expanded services can be provided by the city. In some cases analysis of costs may determine that a private service provider can establish the service at a lower cost to the city than having the city provide the service on its own. Some examples of this may be libraries (currently under contract with Maricopa County), fitness centers such as a YMCA, and waste services like recycling and hazardous waste disposal. In other cases the service may be in high demand by residents but can not be placed into city expenditures due to its nature.

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Examples of this are federal and state projects like freeways and military expansions.

As the city continues to grow determinations will have to be made on how the city will acquire or purchase what is necessary to create a full service city. Some of the items that budgets typically consider are land, manpower, equipment, facilities, buildings, and maintenance.

#### Land

The city of Surprise has many methods to acquire land for the purpose of public development. The most common method of acquiring land for the city is through entitlements. When a developer applies for entitlement (zoning, subdivision, etc.) it will be required to provide property for civic needs (schools, fire stations, streets, etc.). The city may also purchase or negotiate for land directly as required. Land purchases may be made to provide space for required services or for preservation of open space. These first two methods are attempted before any consideration of the final method, eminent domain. In a recent Supreme Court case<sup>1</sup>, it was decided that eminent domain could be used to acquire land for the purpose of economic development. For the city of Surprise eminent domain is a last resort to be used only for the development of roads, utilities, and direct public services. Eminent domain still requires compensation from the city after the acquisition of the land.





#### **Buildings, Facilities and Utilities**

Public buildings are usually paid for by the city, potentially with some share paid by the developer. For roadway and utility improvements this is often provided entirely by the developer at the location being developed. In locations with no ongoing development, improvements must be budgeted and paid for by the city. In the case of private utilities

<sup>&</sup>lt;sup>1</sup> Kelo v City of New London (04-108) 545 U.S. 469 (2005) 268 Conn. 1, 843 A. 2d 500, affirmed

(phone, cable, power) the cost is paid entirely by the provider or agreements are made between the developer and the provider for service. School districts within the Surprise Planning Area are provided the opportunity to work with developers for funding and land agreements to aid in the construction of new facilities and hiring of additional staff.

#### **Equipment and Labor**

New equipment and labor needs are paid for by the city of Surprise and may have some share paid by the developer. These items are most often funded through impact fees and grants. In the case of school districts manpower is a shortage problem across Arizona. The city of Surprise works with the districts to provide the opportunity to create agreements between the districts and the developers.





### C. New Development Costs

As Surprise continues to grow at a rapid pace, and when the growth slows, it is important to ensure new development and redevelopment efforts pay their "fair share." Typically this fair share is provided by: land donations or in lieu fees for emergency services, schools, and parks; offsite development of streets and infrastructure (directly connected to the site); impact fees; and in some cases development of necessary regional capital improvements (water and sewer facilities). In cases where the development has special offsite needs (additional road and sewer connections) the developer will provide a limited first phase construction of these to serve the initial development.

Once these new services are built, the city must then provide for the remainder of the expenses. After the development is built the city will ensure it provides police and fire protection as well as parks and other recreational opportunities. This may be as little adding additional waste service routes to hiring additional personnel or building a new

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facility. On top of the new services and maintenance, the city must also determine what

additional services it will be required to provide to the area. Items that should be considered during development to reduce the cost to the city are: scalloped streets, connections to other developments (pedestrian, bike, and vehicle), does this development create the need for additional buildings, services, schools, or hospitals.

There are several methods Surprise can use to ensure a complete development from the beginning or to minimize the future costs of expanding services to new developments. Some of these include sharing construction costs with developers, incentivizing developers to bring necessary services through development agreements, building services and infrastructure in advance to prevent future rising costs, and targeting development to areas that are ready to receive it.

#### **Shared Costs**

As a new development is created in Surprise and services outside the initial scope of the development are needed, the city can team up with other developers and cities to share the burden of making the improvements. An example of this is to create a service with the help of the new development such as libraries or community centers. The costs will be reduced by sharing costs among the parties and having the buildout completed prior to construction costs increasing further from inflation. As other developers build nearby and use the service, they can repay the city for their share of the cost. The end result is a lower cost service built by city funds upfront and repaid to the city at a future date. When considering this option it is important to analyze the service to ensure the maintenance and operational cost is not higher than the savings generated by creating the service before buildout of the area.

#### **Incentivizing Development**

In some cases it may be beneficial to the city to incentivize growth through development agreements. These agreements may include items such as tax reduction, waiver of fees, and capital improvements by the city. The cases typically arise when a service cannot be provided by the city (retail and employment). When considering development incentives the city must analyze the case to ensure the return, timing of the return, or benefit to the citizens outweighs the improvements or other arrangements made by the city.

Development may also be given an incentive to locate to an area of the city where growth is more desirable by placing infrastructure in advance of actual development. Through providing service to targeted areas and having developers pay their "fair share" when they build, the city can target growth and influence employers and retailers to the market by reducing infrastructure concerns. When planning for advance infrastructure the city must analyze the amount of service to be provided based on desired development and the size of development. Once determined the city must also look at

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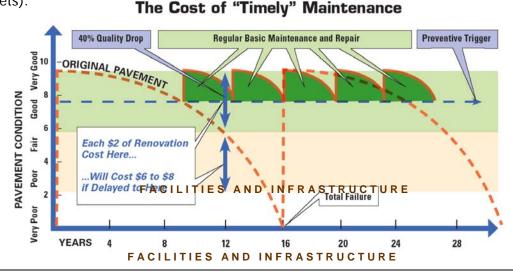
maintenance costs, repayment costs, and timing to decide if this is the best course of action.

#### D. Maintenance Costs

The daily maintenance and service provisions by the city of Surprise are handled through the city budget. The revenue needed to provide these maintenance and service provisions should total less than the sales and property tax revenue brought in from a development. Ideally the total should balance to zero, but over time replacement of infrastructure will become necessary requiring extra funding for redevelopment and repair efforts. As Surprise is a relatively young city this has not been a primary concern. Now with some of the first developments and neighborhoods of Surprise beginning to age, more of the budget will need to be directed to repair and maintenance efforts as well as creating services that were not originally provided to the community. This can be accomplished through steady revenue streams and good planning, or may be provided by bonds for immediate funding needs. If bonds are used, they should be paid back through the increase of tax revenue the redevelopment effort can generate.

#### **Maintenance Cycles**

All development in Surprise has a maintenance cost and replacement timing. From streets to streetlights and parks to the stadium, a budget must be determined to consider replacement or repair of the service, utility, or building. Some of this has already been started with common items like street maintenance. The graph below shows a simple diagram of how often street maintenance is required (Figure 4.1B). It is easily seen that repair should begin within eight to twelve years and every three to four years afterward. It also clearly shows the increase in cost with delay of maintenance. The timing shown in this graph is dependant on outside variables such as number of vehicles and average weight of the vehicles (truck routes will degrade faster than other streets).





Surprise has little experience with aging neighborhoods other than the original townsite. As some of the first planned neighborhoods age there will be an increase on the overall city maintenance load. Repair or maintenance of streets, street lights, parks and more will need to be phased into the city maintenance schedules. Some neighborhoods are already beginning to enter this maintenance cycle while others still have several years. Future funding efforts will have to ensure a balance between new development and developments that have entered the maintenance cycle.

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# 4.1.3 Goals and Policies

#### Goal 1

# Surprise is financially sustainable.





#### Policies:

- 1. Uphold sound financial policies and mechanisms.
- 2. Sustain an open public dialogue that quantifies the public's desires, the costs for addressing them, and the funding alternatives available.
- 3. Ensure that new development pays its "fair share" of growth and allow that community improvements are systematically provided to address growth.
- 4. The city of Surprise will plan to invest funds for maintenance, capital improvements, and redevelopment efforts.